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20 May 2022

Mr Sean McComish
Economic Regulatory Advisor
Essential Services Commission
GPO Box 2605
ADELAIDE SA 5001
rates@escosa.sa.gov.au

Dear Mr McComish

Local Government Rates Oversight Scheme – Draft Framework and Approach

Please find below, Campbelltown City Council's comments and feedback in regards to the consultation questions contained in the Draft Framework and Approach document. These responses were considered and endorsed by Council at its 17 May 2022 meeting.

2.1 *Do stakeholders agree with this interpretation of the legal framework?*

Council agrees with the interpretation of the legal framework established for the rates oversight scheme.

However, Council believes that a three month review period for the Commission to provide its advice is more appropriate and will work in better with Council's budget preparation responsibilities and consultation processes.

Council supports the fact that the Commission has an advisory role rather than an economic regulation role, and that it has no powers to enforce compliance measures, set service standards or regulate rates.

2.2 *Do stakeholders agree with this interpretation of the scope and context of the advice to be provided under the scheme?*

Council acknowledges that the scheme is intended to review and provide commentary and advice on the adopted LTFP (Long Term Financial Plan) and AMP (Asset Management Plans). However, Council believes that this process mirrors the steps undertaken by Council as it develops and consults on, with their adoption made by the elected representatives of the Community the Plans help represent.

Council strongly discourages using the scheme to undertake inter-Council comparisons. While the commentary suggests that this will not be the case in the first cycle of the scheme, the wording in the Draft Framework and Approach document leaves the door open for this to be undertaken in future cycles. Campbelltown does not believe that this is appropriate, as each Council has its own unique mix of demographics, rateable properties, service and debt levels, value of asset, while considering the Community's capacity to pay for the services provided. This mix does not easily translate to other Councils for comparative purposes.

Council is concerned about the timing of the provision of information to the Commission, especially in regards to its LTFP and AMP. Council traditionally endorse its LTFP to determine its financial parameters for the upcoming year in March. These requirements of the scheme will bring the process forward by a minimum of 6 months, posing a risk to future financial projections due to changes resulting from budget reviews, indices or levels of income and expenses.

Similarly, for the AMP, Councils may not able to achieve the legislative requirements to submit its most up to date AMPs by the end of September, as this would conflict with the legislative requirement to adopt these Plans within 2 years of a Council election, where that year is considered the year to submit this information.

Council notes the intention of the scheme, however based on the costs quoted, the Commission will generate some $3.6 million in funds on an annual basis, that will be paid for by all South Australian ratepayers, which in turn will increase the financial burden of all Communities. As such Council does not support the proposal to transfer this cost from ESCOSA.

4.1 *Do stakeholders consider these principles appropriate for the analytical framework?*

While Council does not support the cost it will be charged for the scheme, it is important that the principles help provide value for money to the ratepayer. Council follows these principles in developing its Strategic Plan and Budget, so the Scheme will effectively double the process Council already follows.

To support Principle 4, Simplicity, Council recommends that ESCOSA access data from the Grants Commission, rather than relying on individual Councils to provide this information again.

Council are already required to provide this information to the Grants Commission through the General Information and Supplementary Information returns. It is important to note that this information is able to be used to extract the historical information that ESCOSA requires, while this information has been subject to external audit which confirms its accuracy and validity.

Using this data will also assist in meeting most of the principles that are proposed to be put in place.

Council also questions whether the Scheme is value for money for ratepayers, as all Councils undertake a consultation process with its community on the key information being reviewed. The Scheme will double up the work that is already being undertaken.

4.2 *Do stakeholders consider this an appropriate analytical framework?*

Council (and the Local Government industry) currently uses the approach listed in this analytical framework and has been for many years. Council will continue to use this approach irrespective of whether the Scheme is in place. As such Council supports its continued approach regardless of the Scheme and framework continuing to be in place.

It is also supported by the obligations Councils must follow in the Local Government Act 1999 and Local Government (Financial Management) Regulations 2011.

4.3 *Do stakeholders consider it necessary to consider historical trends when applying the analytical framework?*

While Council does agree that historical trends do provide some context in regards to how its financial sustainability has tracked in the past, it is recommended that a period of no more than 5 years be used for analytical purposes. Reviewing data beyond this period of time may distort current trends, especially as the assumptions and data contained in Council's LTFP and AMP have matured.

4.4 *Do stakeholders consider this to be an appropriate approach for the collection of historical information?*

Council strongly recommends accessing this data from the Grants Commission. This will ensure that the data being used is consistent across all 68 Councils and has been submitted after the completion of the Council's external audit.

In addition to each Council's financial statements, the Commission also records the key financial targets, along with rate information referred to in the consultation document.

All Councils are required to provide this information to the Grants Commission by end of November for the preceding financial year.

4.5 *Do stakeholders agree that, where it is useful to do so, information should be normalised on a per rateable property basis?*

Due to the complex nature of rates and movements in valuations from year to year, this calculation may create confusion for ratepayers and the general community. Due to this, it is likely that the percentage change in average rates between two financial years will not always match the percentage change in the cost per rateable property.

Council recommends that if this measure is introduced, it should not be used as a comparison with other Councils, as services, service levels, borrowings, capital works programs and development vary across Councils.

It is important to note that the use of services can be different between rateable properties, depending on whether the property is residential, commercial, industrial and vacant land.

4.6 *Do stakeholders agree that use of the CPI is an appropriate index to utilise when considering a Council's operating income and expenditure growth over time?*

Council strongly supports the use of the Local Government Price Index (LGPI) as the appropriate index to apply to Council's operating income and expenditure over time. Council uses this as its primary index in its LTFP and as the basis for determining its rate increase each year.

While Council appreciates that CPI measures the increase in the cost of goods and services consumed by household, it does not reflect the increase in the cost of goods and services consumed by Councils, or the additional cost pressures experienced by Councils, especially due some of the non-household related purchases, such as road construction.

4.7 *Do stakeholders consider these to be appropriate questions for implementing the analytical framework?*

While Council have no issues with most of the questions in regards to the analytical framework, some of the commentary comparing AMP expenditure and depreciation may create confusion for ratepayers and those who will review the Scheme's commentary on this matter.

As per the legislation, Councils are require to use their AMPs for the Asset Renewal Funding ratio, as it provides a good indicator as to whether a Council is adhering to these Plans. While depreciation reflects how much of an asset has been used in a year, based on its expected useful life, this does not reflect where an asset or a group of assets are in their asset lifecycle.

For example, at Campbelltown, drainage and kerb assets are expected to expire in about 30 to 40 years time. Therefore, Council will see its AMP expenditure being significantly greater than depreciation at this time.

Councils planned expenditure in its adopted AMP across the next 10 years is significantly less than planned depreciation across the same timeframe, as there is minimal renewals required over this time period.

4.8 *Do stakeholders consider the proposed approach to a material amendment appropriate?*

Council agrees that the material amendment approach should be considered in isolation to the Council under review through the Scheme, due to the unique nature that each Council has in regards to its services and mix of assets.

4.9 *Do stakeholders consider this an appropriate approach to the analytical framework to assess the key questions in Table 5?*

Similar to previous responses to questions posed above, Council believes that historical data should be obtained from the Grants Commission to provide consistency in data used. Also, Council supports a shorter historical timeframe, as it will provide greater relevance to Council's existing and planned financial sustainability as the assumptions and maturity of data used in the AMP and LTFP improve.

4.10 *Do stakeholders consider this an appropriate approach to developing the content of the advice that the Commission provides to each Council?*

Council would hope that any advice provided would take into account any cost pressures that would impact service delivery, such as cost shifting from other levels of government and any additional demands for services by ratepayers, which may result in increases in expenditure.

In Council's experience, a request for additional or improved levels of services do not normally result in a corresponding reduction or removal of other services. These scenarios would result in increases in rates that may be above LGPI or CPI.

Prior to any advice being finalised for publication, Councils should be provided with the opportunity to consider the draft advice and provide feedback for consideration by the Scheme prior to be finalised.

4.11 *Do stakeholders consider this an appropriate approach to adopt for the publication of the advice, given the legal framework?*

While Council would be willing to publish any advice received, there is concern that the advice would be significantly outdated as a Council reaches the end of its review cycle. For example, there may be significant changes in services provided or assets purchased, which are supported by the community and ratepayers, that may not be reflected in AMP and LTFP provided at the time of the review.

This may require additional commentary to explain the variation from advice received, to provide appropriate context. To overcome this, there may be recommended that the advice from the Scheme should confirm that the advice is based on data reviewed at the time and may be subject to change as Councils continue to review their services and assets.

4.12 *Do stakeholders consider the analytical framework aligned with the legal framework?*

Council has no issues on the legal framework, however believe the advice should primarily focus on future projections of the Council.

4.13 *Do stakeholders consider the analytical framework to be aligned with the overarching principles for its development?*

Council has no further comments on the framework outside of its commentary provided to other questions contained in this feedback document.

5.1 *Do stakeholders consider publishing a revisit set of guidelines and proforma Excel template no later than the start of the Relevant Financial Year appropriate?*

Council recommends that historical data should not have to be re-collected in the revised template, instead it should only capture updates to the current year and future projection, which should also include any updated AMP and LTFPs.

5.2 *Do stakeholders consider the proposed timing for information provision appropriate?*

Council supports the deadline for the provision of information by 30 September, as this will better align with the requirements of Section 122(1e) of the Act and supports staff to obtain the necessary information as it becomes available.

7.1 *Do stakeholder agree with the Commission's approach to allocating its projected indicative costs across the first cycle of the scheme?*

Council believes this is an unfair cost to impose on all South Australian ratepayers, as it will ultimately be them that will need to fund the Scheme in some form. This will result in an additional rate increase or a reduction in services, depending on the way individual Councils choose to pass on this cost.

The proposed cost of $52,133 for this first four year cycle will be quite excessive for smaller Councils, as it would represent a large portion of their operating budget, when compared to larger Councils.

Council strongly believes that the cost of the Scheme should be funded by State Government. If Local Government must fund it Council recommends a review of how costs are apportioned across the 68 Councils. Examples of apportionment could be based on the number of rateable properties, total rates income or total operating expenses. All of this information would be made available through the Grants Commission data at any point in time. This allocation would be set at the start of the cycle to provide Councils with clarity on their financial obligations over this time.

7.2 *Do stakeholders agree with the Commission's approach to addressing any material difference between its actual costs and its projected indicative costs?*

Council would support returning funds to Councils if there are savings realised through the Scheme.

7.3 *Do stakeholders agree that the Commission should bill the LGA the total yearly cost associated with the scheme, noting that any such scheme would require unanimous agreement between the LGA and member Councils covering at least the first four-year cycle?*

Council believe this Commission should be responsible for billing each Council rather than transferring the administration and overheads associated with this process to the LGA.

7.4 *Do stakeholders agree with the Commission's approach to the timing and frequency of billing?*

Council has no concern in regards to the proposed frequency of annual billing, the payment terms and timing of invoicing.

7.5 *If the Commission were to bill each of the 68 Councils separately, do stakeholders agree with its proposed approach to allocating the total yearly cost between Councils?*

Council has no issue with the cost being charged yearly, as this will be more practical for Councils to budget for, rather than having to consider this cost impost once every four years.

We thank you for considering our responses to the consultation and trust that Council's feedback will be used to help shape the final outcome.

Should you have any queries in relation to Council's responses, do not hesitate to contact [redacted] on the number provided above, or at [redacted]

Yours sincerely

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cc: Local Government Association